The Outlook for International Bank Lending

Introduction

Subjective reality has a force of its own and this report is based on the view that bankers themselves take of the modern international capital market.

Since the first oil "shock" of 1973, medium-term international bank loans and international bond issues have, on average, provided about two-thirds of the funds needed to balance the world's current payments plus additions to the reserves of the world's deficit countries(1)*. This can, admittedly, be little more than a guess because of the limitations of data on global payments, net new borrowing and net debt. But the market's preponderant role in moving funds from surplus to deficit countries seems universally accepted and its sheer efficiency as a transmission channel has so far helped to keep world demand and trade at higher levels than would have been possible in its absence. The central questions of this inquiry are whether bankers believe the market can go on fulfilling that role and how its efficiency might be improved.

The present report is based on answers to a questionnaire given by 52 leading international banks and their comments in subsequent interviews.

Most bankers questioned think that the international banking system is now in a better position to handle the recycling of OPEC and other surpluses because of the greater experience gained by banks and borrowers since the first quantum rise of oil prices in 1973. At the same time, however, a majority believe that the system may be working under more difficult conditions. Although the OPEC surpluses appear to have started diminishing rapidly once again, as in the mid-1970s, the continuation of such a contraction cannot be taken for granted. More important, perhaps, is

* numbers in brackets refer to notes in the statistical appendix.

that the deficits of non-oil developing countries are expected to remain very high for the foreseeable future, even assuming no further rise in real oil prices. This is a challenging prospect because many banks are thought to be running up against capital constraints, their lending limits to a number of borrowing countries and pressure on profits resulting from a squeeze on lending margins since 1976.

That squeeze has resulted mainly from competition among lenders. Indeed, one of the main themes of this report is the apparent contradiction between the constraints on lending complained of and the competition to go on lending, likewise complained of.

The main explanation for that and other apparent contradictions is that market participants cannot all have the same view at the same time because no market would exist if they did: this report certainly provides plentiful evidence of a wide diversity of views among lending bankers. And it has, indeed, been a characteristic of the international bank loan market since its uncharted beginnings in the mid-1960s that individual banks and national groups of banks have, periodically, participated in it more actively and less so according to their circumstances or those of the countries in which they are based. By the same token, access of borrowing countries has varied according to their circumstances: the market has, in effect, taken over much of the monitoring function once exercised exclusively and still exercised in a more formal way by the International Monetary Fund.

Constraints on lending

On the part of the banks, credit risk, capital adequacy and the profitability of international as against domestic lending are listed as the main constraints foreseen on the growth of international lending in coming years. But almost three-quarters of the bankers questioned described none of these as especially significant constraints. And, in spite of such constraints, a majority of banks questioned expect to increase the ratio of their international assets and earnings in relation to domestic assets and earnings over the coming years. This is particularly true of banks that have so far been relatively slow in building up their international business.

Although some bankers expect international loan losses to rise as a result of more reschedulings by sovereign borrowers, few expect that non-oil developing countries will run into a "generalized" problem, for all the difficulties of defining that concept precisely. Moreover, a majority of respondents believe that international loan losses will continue to run below the level of domestic losses, as in the past, partly because countries, unlike companies, cannot be wound up for creditors and nearly always service their debt over the longer term.

There is a seeming contradiction between the view expressed by a

majority of bankers that lending margins will widen and the view of an even greater majority that this would not, in itself, compensate for higher risk or lead to an increase in lending. And it is, indeed, true that the volume of publicized new Eurocredit lending has levelled off since 1979. But that seems to have happened partly because many countries took advantage of easy terms for precautionary borrowing before the second, 1979, oil "crisis" and have since run down reserves and stand-by facilities. In addition, there has been a marked shift to more short-term international lending (of up to one year) since mid-1980. This may reflect greater caution by banks. But it may also reflect, in part, caution on the part of the borrowers about launching new development when real interest rates are at their highest since 1972, especially in the case of the dollar, the main currency of the international capital market.

True profitability

The profitability of a large wholesale market, but also the difficulties of calculating that profitability, are brought out in answers to question 10. They suggest that the true gross return to non-American banks is about 25 per cent above quoted lending margins and that returns on international dollar and Deutschemark medium-term loans are higher still for banks with wide deposit bases in those currencies.

The net-of-cost returns are, of course, considerably lower and the post-tax net returns lower still, in some cases as little as one-quarter of gross pre-tax returns. Those returns are, admittedly, no more than estimates because many banks admit that they cannot arrive at any precise costing of their international medium-term lending taken in isolation, since the allocation of overheads and other costs to any segment of a diversified enterprise is always arbitrary in part. Despite the imprecisions and misgivings, however, international banks have continued to compete for international lending business and most expect to go on doing so. They would not be, unless this business offered higher rewards than the alternatives available. An almost inescapable conclusion is that the volume of new international bank lending will go on being determined by relative demand between domestic and international borrowers.

Any worries?

Aspects of the market that trouble some bankers, though by no means all, are the possible instability of excessive concentration of liabilities (heightened by the shift of new Iranian dollar earnings to non-American banks in 1979/80), and a general trend towards shorter maturities and more volatile currency switching by depositors as a result of sharp swings in American interest rates since October, 1979, and related fluctuations in

other leading financial centers. This can complicate the funding of three- and six-months rollover periods of medium-term international loans, but most banks seem to think the problem manageable.

When it comes to improving the system's efficiency, most banks believe that they, themselves, cannot offer depositors any significant inducement to stretch out the maturity of their financial assets in a climate of high inflation and unpredictable interest rates, but that the International Monetary Fund could contribute to an expansion of a market in SDR assets, as yet in its infancy. Most bankers believe that the IMF could raise considerable additional funds on the markets if it wished. However, some oppose the idea for fear that the Fund might "crowd out" banks in the international financial markets. Relevant in this respect is the distinction which bankers draw between the Fund's role of tiding member countries through temporary adjustment, and the market's role of financing development promising borrowing countries a rise in their net foreign exchange earning capacity over the longer term. And, while bankers believe that it would be in the interest of borrowing countries (and not lenders alone) if more information about members were authorized through the IMF, the scope for "co-financings" seems limited to most of them.

What emerges is the picture of a market that has grown very considerably in the past dozen years in spite of periodic misgivings voiced by many of its participants and one which most bankers expect to go on growing in spite of difficulties some of them foresee. It does not follow that the market is without dangers of any kind, but its participants should be judged by their deeds and the functioning of the market by its results.

The Outlook for International Bank Lending

Questionnaire for International Bankers

1. In your judgment, is the international banking system in a better or worse position to handle the "recycling" of OPEC funds now than it was in 1974-76?

2. In this respect, what do you consider to be the most important difference between the first and second rounds of recycling?

3. Last time, the current surplus of oil-exporting countries was rapidly reduced, from about $68 billion in 1974 to about $5 billion in 1978. Do you anticipate that their current surplus will again be reduced rapidly, over the next five years or so, or do you anticipate a longer period of massive surpluses?

4. Do you anticipate that OPEC depositors will stretch out their investments into longer-term assets more rapidly on this occasion than in 1974-76?

5. What is your attitude to the acceptance of short-term OPEC deposits? Do you think that banks can provide incentives towards a larger investment in longer-term assets?

6. The following is a list of some possible constraints on the expansion of international lending by banks. Could you please indicate which will be significant constraints on lending by your bank?

    a. Anticipated relative (un)profitability of international vs. domestic lending;
    b. Concerns related to capital adequacy;
    c. Credit risk and undue concentration of risk;
    d. Attitudes or policies of national bank supervisory authorities;
    e. Other official restrictions or regulations;
    f. Other (please specify).

    If possible, please rank in order of significance.

7. Is your bank's lending to particular international borrowers at present constrained by the extent of outstanding commitments to individual borrowers in relation to capital funds?

8. If your bank has a sizeable commitment in a particular country (by way of branches, outstanding credits, etc.) does this factor provide an incentive to extending new credits to borrowers in that country?

9. Last time, no serious defaults arose. This time do you think that a generalized debt problem affecting developing countries is likely to emerge, and if so, in what way would it emerge?

10. To what extent do commercial bankers believe that increased spreads would compensate banks for higher risks, and help induce additional bank financing? To what extent do they expect spreads to rise?

11. On the side of the LDC borrowers, do you think that there is the potential for a large increase in bond issues by developing countries? If so, which of the bond markets offers the greatest potential for further expansion?

12. Do you think that banks' underlying bad debt experience and loan write-offs will be better or worse on international loans than on domestic loans (on average over the next four to five years)?

13. Turning to your bank's activities, do you anticipate a large increase in your international business? Specifically, do you anticipate that the ratio of the bank's international assets to total assets (on a world-wide consolidated basis) will increase or decrease in the course of the next two to three years (from end-1979)?

    a. Increase of more than 20%
    b. Increase of 10-20%
    c. Increase of 0-10%
    d. Decrease of more than 20%
    e. Decrease of 10-20%
    f. Decrease of 0-10%

14. What was your ratio of international to total assets

    a. At end-1979?
    b. At end-1978?
    c. At end-1974?

15. Do you anticipate that the ratio of international earnings to total net earnings will change appreciably over the next two to three years?

    a. Appreciable increase
    b. Appreciable decrease

16. In general terms, is there a maximum limit to the ratio of international to total assets which you would not like your bank to exceed, over the longer term? If so, could you indicate what the maximum would be?

17. The regulatory authorities in the United States have developed a system for drawing their banks' attention to credits which in their opinion may carry undue risks and for generally supervising US banks' international lending. Do you approve of their approach to bank supervision or not?

18. (For banks with head offices outside the United States) In your opinion, will the system of bank supervision applied to your bank by your national supervisors have the effect of slowing down the rate of expansion of your international lending below the rate you would yourself consider prudent?

19. On the liabilities side, do you feel that greater uncertainty with regard to the stability of the deposit base (in terms of possible shifts in the geographical distribution or currency distribution of new deposits, for example) will act as a deterrent to new international lending?

20. Would your bank consider offering facilities whereby deposit-liabilities would be denominated in a "basket of currencies", such as the SDR, as a means of offering a more stable asset to customers?

21. What do you believe is the appropriate long-term relationship between the IMF and commercial banks with respect to information sharing, cofinancing, and basing future bank lending on compliance with conditions in IMF agreements?

22. Would you favor some easing in the conditions attached to IMF credits to encourage borrowers to go to the Fund at an earlier stage than has usually been the case in the past? Or would you, on the contrary, be very concerned at such a policy trend?

23. Do you think that the Fund itself would be able to borrow large amounts on the international financial markets and what, in your view, would be the best approach for the Fund to follow?

24. When the Fund reaches an agreement with a member country on the adoption of an adjustment program, as part of a credit facility, would you regard this by itself as a decisive factor in your bank's decision to extend new credit to that country?

25. Other possible measures that have been suggested for easing the strain of recycling on the banks include the following:

    a. The establishment of an international agency to provide insurance facilities for bank loans;
    b. The establishment of an agency to provide official medium-term finance.

    Do you favor either of these?

Survey of Market Opinion

1. In your judgment, is the international banking system in a better or worse position to handle the "recycling" of OPEC funds now than it was in 1974/76?

Respondents' Answers
(per cent)

Better Position	*Worse*	*Better and Worse*
17	51	32

As shown above, a majority of respondents think the banking system in a worse or partly worse position to handle the recycling of OPEC surpluses than after the first oil "shock"; but almost half of all respondents think the system better or at least partly better placed.

More relevant, perhaps, than the difference of emphasis is the wide agreement by banks on the reasons for their views. Most believe the system to be better placed for having gained greater experience. At the same time most believe it to be in a worse position because many banks are thought to be running up against capital constraints, lending limits to a number of borrowing countries, especially oil-importing developing countries, and pressure on profits resulting from the squeeze on lending margins created by competition to go on lending.

Reasons given for thinking the system *better placed* than in 1974/76 include the following:

1. Banks have become better informed about country risks, partly on the improved flow of information from official sources and partly on a refinement of risk analysis within commercial banks themselves;
2. The above is said to have contributed, in turn, to an improved grading of lending limits within banks;
3. The banking system involved in the recycling process is said to have improved greatly in size and depth through an increase in the number of banks providing international medium-term credits, closer links between banks that have often participated with each other in lending syndicates, and through the evolution of regional lending centers, especially in Asia, where closer and more continuous contact with borrowers has been made possible;

4. As in the immediate aftermath of the 1973 oil "shock", the biggest deficit countries in 1980-81 have been the leading industrial countries, but with the important difference that the two biggest deficit countries after the latest rise in oil prices have been the relatively strong economies of Germany and Japan, which have been able to finance part of their deficits directly from the OPEC authorities which allowed the market, in turn, to give priority to other industrial deficit countries perceived as good risks;

5. A difference cited by some banks has been the absence on this occasion of the uncertainty which followed the collapse of 1971/73 world economic boom and its accompaniment of crisis and failures in the foreign exchange, shipping and property markets;

6. In the opinion of some banks, many borrowers have learned to improve the structure of their foreign debt and more have learned to take advantage of favorable market conditions for precautionary borrowing;

7. Finally, many banks cited the greater willingness and speed shown by many countries in adjusting to higher oil prices following the second round of significant real oil price increases.

This last point is, perhaps, the most important in macro-economic terms. The size of the imbalance in global current payments depends in part on the deficits that countries are prepared and allowed to run. That, in turn, helps determine the surpluses that other countries can earn and hence the volume of recycling, the accumulation of external assets on the part of surplus countries and of external liabilities by deficit countries.

Reasons for thinking the system *worse placed* than in 1974/76 include the following:

1. The system as a whole is thought to have become over-exposed to some borrowers, especially some developing countries, and more banks are said to have reached or come close to statutory or self-imposed lending limits to such borrowers (although this is contradicted by several banks which point out that lending limits are not immutable, but are adjusted according to the changing circumstances of borrowing countries);

2. In the United States and Japan, where bankers tended to somewhat more concern than their European colleagues, several questioned the ability of dollar markets and dollar-based banks to go on taking as large a part as before in the intermediation of OPEC funds;

3. The cost of debt service has been increased by the rise in American and other key interest rates and, in the opinion of some respondents, relatively high interest rates may persist for some time;

4. Banks have become less well capitalized and face difficulties in restoring their ratios of capital to assets in the present climate of highly volatile interest rates and the pressure on bank profits in some leading Western countries;(2)

5. There are poor prospects for the maintenance, let alone real increase, of official flows to developing countries (this tends to affect mostly the poorer countries with limited market access or none);

6. The liquidity of the international banking system continues to create intense lending competition ("artificially so" in the words of one bank) with resulting pressure not only on average lending margins, but also on differentials between margins to prime and lesser borrowers, pressure on some banks to make marginal loans they might otherwise refuse, and pressure also on other lending terms, as in the form of longer maturities or reduced fees, all contributing to pressure on the profitability of international lending;

7. The volatility of short-term interest rates, especially dollar interest rates, is said to have increased the difficulties of maturity transformation on the part of some banks which are unable to obtain sufficient three-months liabilities to match fully the conventional three-months rollover periods of most medium-term international loans. It has also increased the difficulties, and opportunities, of those banks who choose not to match fully on their view of interest rate trends in the short-run, although that latter practice, to the extent that it exists, would result from a decision by banks to seek opportunities at a high risk rather than from the volatility of interest rates themselves;

8. Since the early 1970s, international lending has grown faster than domestic lending at many leading international banks and, in the opinion of some, this could limit the further growth of international lending in relative terms (although other banks cite demand as the determinant of lending);

9. Some banks, locked into some large borrowers, will have less capacity to lend to others but that might influence the composition of lending banks rather than the total of market flows;

10. Closer internal controls by banks and closer supervision by the authorities in the main financial centers might slow the growth of international lending, at least to some borrowers.(3)

2. In this respect, what do you consider to be the most important difference between the first and second rounds of recycling?

The gist of the answers given by many bankers, taken with the answers to the preceding question and the following question, is that the *system* is believed to be better than last time but the *circumstances* are more unfavorable.

This is illustrated in the points listed below, which are included among answers to Questions 1 and 3:

1. One difference perceived by several respondents between the aftermath of the first and latest oil "shocks" is that demand in the industrial countries as a group may remain depressed for a longer period this time. If that proves the case, it would contribute to a slowing of export growth of higher income non-oil developing countries and countries in Eastern Europe, while at the same time increasing their debt service ratios. Such countries might not, in those circumstances, be able to maintain borrowing at previous levels for continuing development. This might be particularly true if excessive dependence on monetary constraint in the industrial countries, resulting from the difficulties of imposing fiscal policies, adds still further to unemployment in the OECD area. Rising unemployment could then add still further to protectionism whether directly, through subsidies to declining industries and regions, or by some combination of such approaches;

2. A more positive difference mentioned by some respondents is the growing flexibility of the international capital market. For about two years past there seems to have been an increase in single bank to single customer international medium-term bank loans, although the evidence for this is necessarily impressionistic. More international bank loans are now based on US prime instead of the conventional Libor, or some combination of the two or options between them. The use of the US bankers' acceptance rate was

recently introduced as yet another base for floating rate medium-term international bank loans. Another innovation has been the inclusion of an SDR tranche in a recent international bank credit, and ECU tranches in others;

3. In the international bond markets, issuing volume has been kept up by large numbers of convertibles, floating rate notes, bonds linked to world oil prices, low coupon bonds sold at heavy discounts to bring yields to market levels, comparable bonds with fixed coupons but with issuing prices left to market demand and other innovations like "bought in" issues taken up whole by managing bank syndicates on the speculation of selling them to investors. While a return to more stable interest rates can be expected to lead to a return of more conventional fixed-interest financing on international bond markets, the experience gained of more flexible approaches could again prove useful in any future periods of volatile interest rates;

4. A difference or, at least, evolution since the middle and latter 1970s consists in the growing proportion of new Eurocredit borrowing used to finance maturing debt. According to estimates made publicly by the Deutsche Bank, that proportion approximately doubled to about half between 1978 and 1980 and might, on present trends, grow to about two-thirds by 1985. One implication seems to be that countries which borrowed heavily mainly for development may have to devote an increasing share of new borrowing to the completion of development already started unless they can increase their borrowing for additional development. They might be able to do the latter only if lenders were confident that additional investment would contribute further to the economic growth, export potential and debt servicing capacity of the borrowing countries;

5. A difference stressed by bankers in Japan was the greater trend they perceived towards diversification of OPEC funds both by currency and maturity, compared with the first round of recycling. On some Japanese estimates, the equivalent of at least $10 billion of OPEC funds had been placed in the Tokyo market in yen in 1980 predominantly in longer-term forms (some estimates put the total much higher), and the inflow was expected to continue in 1981. Corporate as well as government bonds and even equities were being acquired by overseas official holders.

3. Last time, the current surplus of oil- exporting countries was rapidly reduced, from about $68 billion in 1974 to about $5 billion in 1978. Do you anticipate that their current surplus will again be reduced rapidly, over the next five years or so, or do you anticipate a longer period of massive surpluses?

Only a minority of bankers questioned in the United States, Japan and Europe said, when questioned in the spring and early summer, that they believed the OPEC surplus would again be reduced rapidly. Since then, official estimates and forecasts seem to have contradicted that view, at least for the short term of this year and 1982; the combined OPEC surplus is expected by OECD to decline from $120 to less than $70 billion between 1980 and 1982. However, this is expected to be a reflection mainly of an improvement in the position of the main industrialized countries. The

combined deficits of non-oil LDCs and other non-OECD countries is expected to rise from about $50 billion to about $65 billion between the two years. While the official estimates and forecasts therefore contradict the majority view of bankers questioned in this survey, they do confirm the belief expressed by a majority of those bankers that non-OECD deficits may persist at a high and even rising level. (4)

4. Do you anticipate that OPEC depositors will stretch out their investments into longer-term assets more rapidly on this occasion than in 1974/76?

There was a clear distinction between the answers given to this question by *European bankers*, about three-quarters of whom believe OPEC investors will *not* stretch their investments more rapidly than after 1973, and a majority of respondents in the *United States* and *Japan* who gave the opposite answer. This view was particularly strong in Japan, where all respondents thought OPEC investors would increase their long-term investments quite rapidly. They based this view on the experience of large OPEC yen investments in 1980, already referred to in the answers of Japanese banks to Question 1. Japanese banks believe the OPEC authorities wish to increase the currency diversification of their assets so as to hold a lower proportion in dollars. But short-term financial markets in currencies other than the dollar were limited, they said, so that OPEC investors were being pulled into longer -term investments in the case of the yen.

In contrast, even the minority of European respondents expecting some stretching out of OPEC investments into longer-term assets were unanimous in saying that they thought this would be a slow and marginal process.

Observations made by European and associated bankers include:

1. Longer-term financial assets will remain unattractive as long as inflation persists in the industrial countries accompanied by exchange and interest rate instability;
2. Apart from government securities markets in some of the main Western financial centers, there are no financial markets of sufficient size which could provide long-term investment opportunities as well as liquidity for any significant proportion of OPEC investments;
3. OPEC authorities and institutional investors will maintain a strong preference for liquidity on political as well as investment grounds, the former reinforced by the American freezing of Iranian assets during the hostage impasse;
4. Although rich individuals in OPEC countries invest some of their portfolios in gold, this market is likewise too small to provide liquidity for significant investment by OPEC authorities and institutions. These would,

moreover, be shifting from oil, an asset whose price they can control, into gold, whose price they cannot control because non-OPEC authorities hold about 40 years' of current gold output. It is true that official OPEC gold holdings rose by about 17 per cent to about 40 million ounces of gold in just over four years, to March, 1981, mainly on purchases by Indonesia, Libya and Saudi Arabia. But this still left gold at less than 5 per cent of OPEC reserves, even at recent gold prices;

5. Although respondents envisaged some further foreign direct investment, including real estate acquisitions by OPEC investors, such investment is expected to remain limited by opposition or supposed opposition to "Arab take-overs" in host countries and by caution on the part of OPEC investors about possible seizures;

6. Some banks report that the maximum maturity of some OPEC deposits has doubled in the past two years to 5- and even 6-year deposits, but the proportion remains extremely small because of the illiquidity of such deposits, which applies even to large holdings of medium-term certificates of deposit (CDs);

7. An example of the maturity structure of OPEC deposits given by a major European international bank is typical of similar breakdowns given by other banks:

Maturities of OPEC Deposits at European Commercial Bank
(per cent)

call/30 days	*1/12 months*	*over 1 year*
40	*57*	*3*

8. Some banks made the point that the continuing renewal even of the shortest-term OPEC deposits represented, in effect, a form of medium to longer-term depositing. But *confidence in the uninterrupted renewal of such deposits in the case of any single bank is less than wide-spread* and, even at best, banks may rely on some given volume of liabilities, but not their cost;

9. Several respondents said that OPEC authorities and institutional investors might be tempted into index-linked medium and longer-term assets, but that such assets could be provided only by official sources.

5. What is your attitude to the acceptance of short-term OPEC deposits? Do you think that banks can provide incentives towards a larger investment in longer-term assets?

Banks were divided in their attitudes to highly concentrated very short-term OPEC deposits, but almost unanimous in their view that banks themselves can do little to provide incentives for larger OPEC investment in longer assets.

Attitudes to short-term deposits include:

1. Short-term OPEC deposits present no problem and can be preferable in being marginally cheaper than comparable funds drawn from the interbank Eurocurrencies market;

2. Very short-term OPEC deposits can present a problem because such funds flood in when OPEC authorities receive oil payments and flood

out when OPEC depositors make large import payments. In making this point, one bank said, "Such deposits are acceptable but not desirable because of their volatility;"

3. One bank observed it welcomed very short-term OPEC deposits for funding trade financing, but less so for transformation into medium-term assets;

4. One bank reported that it was not concerned about a heavy concentration of very short-term deposits from OPEC or other sources when that fitted with its funding requirements of the moment, but that it turned down excessive offers of such deposits at other times either by quoting returns unacceptable to the prospective depositors or by outright refusal.

Comments on the ability of banks to provide incentives for longer-term OPEC deposits included:

1. "Providing incentives for greater investment in longer-term monetary assets is entirely a matter of market forces and depositors' perceptions of exchange and interest rate trends; banks themselves cannot provide any incentives";

2. A comment in similar vein was: "The only incentive is the market rate, which is acceptable to depositors or not." And, more briefly: "Banks are helpless";

3. Some banks said that the development of an SDR market might help attract more medium to longer-term OPEC deposits (see answers to Question 20);

4. Some banks thought further development of the floating rate note market might help attract longer OPEC deposits, though even that on a limited scale, and at least one bank observed that it regarded the issue of floating rate notes as an expensive way of funding itself;

5. Another reservation expressed about the potential of floating rate notes and certificates of deposit as an attraction for OPEC authorities was the investment that would be required in expanding not only the primary market for such paper, but the need also to ensure a large and liquid secondary market;

6. A different approach, suggested by one respondent, was that banks might do more to help OPEC clients find suitable longer investments rather than trying to provide such assets themselves.

7. Some bankers in the United States said that they had placed tight constraints — and in some cases absolute ceilings — on the acceptance of short-term deposits by OPEC countries in order to maintain proper diversification.

8. Several respondents commented on the effect of the freeze on Iran's assets: "They must be thinking about that all the time, and maybe that overrides any lean toward long-term deposits."

6. The following is a list of some possible constraints on the expansion of international lending by banks. Could you please indicate which will be significant constraints on lending by your bank?

a. Anticipated relative (un)profitability of international vs. domestic lending;
b. Concerns related to capital adequacy;
c. Credit risk and undue concentration of risk;

d. **Attitudes or policies of national bank supervisory authorities;**
e. **Other official restrictions or regulations;**
f. **Other (please specify).**

If possible, please rank in order of significance.

A majority of respondents described none of the constraints as especially significant, about half listed only some of the constraints, and some listed none.

In that context, credit risk emerged as the most important constraint, followed by capital adequacy and relative profitability of international lending.

In summary:

a. *relative profitability* was listed as a constraint by almost 80 per cent of respondents and by 33 percent as the second most important.
b. *capital adequacy* was listed as a constraint by 70 per cent of respondents and by 50 per cent as the second or third most important;
c. *credit risk* was listed as a constraint by 75 per cent of respondents and the most important by 70 per cent;
d. *supervisory attitudes* were listed by 60 per cent of respondents as a constraint and by 40 per cent as the third or fourth most important;
e. *other official restrictions* were listed as a constraint by 30 per cent of respondents, mostly as the fourth or fifth most important;
f. *unspecified constraints* were listed by only 6 per cent of respondents; among these, shareholder relations, debt restructuring problems, and "funding risk" were cited.

7. Is your bank's lending to particular international borrowers at present constrained by the extent of outstanding commitments to individual borrowers in relation to capital funds?

Respondents' Answers
(per cent)

yes	*no*	*n.a.*
20	72	8

Most non-American banks do not limit their commitments to individual borrowers in relation to their own capital funds; the ways in which they set their own prudential limits are described in the answers to Supplementary Question 1A on page 43. However, even half the U.S. banks questioned said their lending was not at present constrained by outstanding commitments, which were still within statutory limits.

Among the minority of respondents who answered "yes" to Question 7, above, was a German bank which said that loans and commitments to its five major borrowers combined might not exceed three times its own

capital and reserves and that the total of its disbursed loans might not exceed eight times its own equity capital, under Paragraph 13 KWG — the German Law of Credit System.

It will be seen, however, that this is not a direct answer to the question because one part of it concerns the total of loans and commitments to a group of clients and another part covers the total of loans to all clients. Neither part of the answer relates loans and commitments and the bank's capital funds in respect of any *individual* borrower.

Of the other German banks that responded, one answered "partly" and the remainder simply answered "no."

However, within the sample as a whole, some banks indicated that although they did not at present limit commitments to individual borrowers in relation to their capital funds, they might do so if any such commitments rose to an amount making such limitation appear prudent.

8. If your bank has a sizeable commitment in a particular country (by way of branches, outstanding credits, etc.), does this factor provide an incentive to extending new credits to borrowers in that country?

The answers to this question were fairly evenly divided between respondents answering "yes" and "no" but the reasons given varied.

Among those banks that said existing commitments would not in themselves induce them to make still more, several hedged their answers, especially in interviews. One of these said "not in principle, but sometimes in practice"; another said "sometimes our arm can be twisted moderately"; another said it sometimes made new commitments on the basis of existing ones, "but reluctantly."

A more positive answer given by several banks was that the very decision to open branches in a foreign country implied a judgment about opportunities and a reasonable absence of country risk which would, of itself, encourage growth of lending to that country.

The point was put differently by one bank, which said that the knowledge and experience of a country gained through branching in it could provide an incentive to lending that other banks might not be willing to consider for lack of similar knowledge and experience, "although that can, of course, also work in the opposite way."

A distinction was, however, made by several banks between the influence on new lending made by existing commitments in the form of branches and outstanding credits. Several said that heavy credit exposure would not in itself induce still more lending and might, indeed, have the opposite effect.

Among the banks that said existing commitments would not in themselves lead to new commitments, all said that the decisive factor was the country lending limits they had set themselves rather than the extent of the commitments already made. However, they pointed out that the extent of existing exposure, by way of branches or of outstanding credits, was of course an important aspect in determining country limits. From this it follows that the difference between respondents answering "yes" and "no" is shaded rather than sharp, and that existing commitments have an influence on decisions to extend new credits, although they do not necessarily provide an incentive to do so.

9. Last time, no serious defaults arose. This time do you think that a generalized debt problem affecting developing countries is likely to emerge, and if so in what way would it emerge?

Respondents' Answers
(per cent)

yes	*no*	*possibly*
15	72	13

The necessarily simplified breakdown of answers above needs to be qualified. Many banks which said they do not foresee a generalized LDC debt problem nevertheless foresee more reschedulings. Most of those banks therefore raised the obvious question of definition: at what point might an accumulation of reschedulings become a "generalized" problem? None of the respondents believed they could satisfactorily identify that point, in their written answers or interviews. Nor was a precise definition attempted by the minority which thinks the number of reschedulings will grow to the point of constituting a "generalized" problem.

There was greater precision on the part of some banks which said a generalized problem might arise if default or rescheduling by one or more major borrowers created a crisis of confidence in the market as a whole, similar to that which followed the Herstatt collapse in 1974. However, although none of the respondents to this question said so, it seems worth recalling that the Herstatt crisis righted itself fairly quickly, because large banks, inundated with funds withdrawn from smaller banks, had no alternative but to put them back into the interbank market, whereupon rates for all banks soon returned to normal levels. In the different crisis of confidence envisaged as a possibility here, it would remain to be seen whether banks really would react to a setback by putting their other assets at a greater risk too.

A different reason given for envisaging the possibility of a generalized problem was that it might evolve if borrowing by a large number of higher-income developing countries did not continue to generate foreign exchange earning or saving capacity. This could arise, in the view of many bankers, as a result of prolonged recession, unemployment and growing trade protectionism in the industrial countries.

On the other hand, some respondents thought the risk of serious defaults or reschedulings may have been reduced by the greater budgeting experience acquired by sovereign borrowers since the mid-1970s, as well as the greater experience of sovereign lending acquired by banks.

Another point made was that the highly concentrated exposure of international banks, especially American banks in some areas of Latin America and Asia, would cause those banks to "take very determined steps indeed" to ensure that the borrowers maintained their viability.

As interesting as the answers to this question was the omission of any reference to Poland both in written answers and in interviews with European bankers (where the question was deliberately not raised to discover whether any bankers would volunteer opinions on the matter). The omission is intriguing because Poland is the first major borrowing country to which lending was maintained far beyond the point at which an economic adjustment was feasible excepting over the medium term of several years. In most cases, there has been a pattern of temporarily shutting countries out of the market before such a stage is reached and Poland itself was, indeed, shut out of the market, but only briefly in 1977.

Some comments worth quoting include the following:

> "By agreeing with the word 'generalized,' we are not suggesting that a general and coordinated LDC default is in the cards. The more likely pattern is for debt-management difficulties to arise in several countries, but in no way coordinated, and not occurring simultaneously."
>
> "There are problems, and we constantly monitor them. But basically our lending is to about ten countries, which we watch like a hawk for the investments they are making and their ability to service debt, and when a country does not appear to be making the right policies or correcting the disequilibrium in the balance of payments, we pull out pretty quickly."
>
> "Several large borrowing countries rescheduled in the 50s and the 60s; but with all the oil problems they didn't reschedule in the 70s, and it was not an accident. They are a lot better run now. You really had to worry in the 50s because of the crazy management in those countries. We have been able to lend to some large borrowing countries because they have evolved to the point where they have developed the management necessary to create economic growth. If those countries had the same kind of management they had in the 50s they would have zero growth, and we would not be lending to them today."

On this question, however, Japanese bankers stood out as somewhat more pessimistic than American and European bankers. Not only did most

of them expect more *de facto* defaults, but some also expected a generalized problem to emerge. One bank said that in its opinion a "chain reaction" of defaults was "likely."

10. To what extent do commercial bankers believe that increased spreads would compensate banks for higher risks, and help induce additional bank financing? To what extent do they expect spreads to rise?

Respondents' answers
(per cent)

	yes	*no*	*n.a.*
Will spreads widen?	62	21	17
Would wider spreads increase lending?	*yes* 2	*no* 70	*partly* 28

While a majority of bankers go on hoping that spreads may widen, although they have in fact been narrowing since 1976, most say that wider spreads would compensate only in part for higher risks and would not, in themselves, induce them to increase their international lending. Some said, however, that wider spreads might help induce them to maintain such lending. (5)

The main reason given by bankers who *expect spreads to widen* in the next year or two is that rising costs and growing constraints on capital ratios will force more banks to hold out for more favorable lending terms. However, some respondents hedged this answer by saying that terms would harden only if enough banks declined to compete for, or actually turned down lending participations at margins thought to be inadequate; they added, however, that they could not be sure that this would actually happen.

Nearly all bankers who expect spreads to widen think that they may *widen for some borrowers only, and slowly* at that. The most common view is that spreads may widen for weaker borrowers. One bank, however, forecasts static or even still narrower margins for prime borrowers, some further erosion of margins for secondary names thought not to be overborrowed, and some widening of margins only for the weakest borrowers.

The minority of banks, which expect that spreads will *not widen*, said a persistence of high international liquidity and competition between banks would go on working in favor of borrowers. One of these banks defined both the average and differential width of lending margins as factors of international money market conditions rather than perceived lending risks.

The majority of respondents who think there will be *little or no increase in lending*, least of all to marginal borrowers, even if spreads do widen, includes a number who think a widening of spreads might maintain

the volume of new medium-term international bank lending. Some banks said bigger margins might induce them to increase their lending to prime names, but nearly all said that larger spreads would do very little if anything to make lesser credits more attractive. "An extra 1 per cent spread cannot compensate for an extra 50 to 100 per cent increase in risk" said one respondent.

Supplementary questions asked at this point, in the course of interviews, concentrated on the true returns on Eurocredits, as estimated by non-American banks.

It is well known that lending margins are an indication rather than measure of the return to banks on Eurocredits. Large banks may obtain interbank funds at lower cost than the Libor deemed to apply to a lending syndicate as a whole. Some syndicate members may have access to deposits from the authorities and state agencies of countries outside OPEC and the Group of Ten at a cost below Libor. And some banks may have an interest free (though not cost free) deposit base in the currency used for international lending (mostly American banks in the case of the dollar, but also German banks in the case of the Deutschemark, in which a sizeable minority of medium-term international lending is made). The average cost of funds to most banks in a Eurocredit syndicate is therefore at varying levels below the base rate above which lending margins are fixed. Additional income, most of which goes to managing banks, is derived from arrangement and front-end commitment fees.

Taking those factors into account, but excluding any allowance for the unquantifiable additional advantage of other business gained or kept as a result of Eurocredit participation, non-American banks estimate their true return on Eurocredit lending in a range of 0.2 to as much as 0.75 per cent above lending margins, with a majority estimating that return at about 0.25 per cent above (i.e., a *true gross return of 1.25 per cent on a quoted lending margin of 1 per cent*).

On the same basis, a major American bank estimated the *true gross return in leading a Eurocredit syndicate at up to ½ point above a quoted spread of 1 per cent.*

A true gross return of *1½ to 2 per cent above quoted margins on international Deutschemark loans* was cited by a leading German bank, which estimated its return on such loans at up to 2½ per cent above its average cost of dm funds.

A second supplementary question put in interviews, asked non-American banks to estimate their *break-even-point on Eurocredits*. Most cited a minimum quoted margin of *⅛ per cent above Libor* plus some element of front-end fees, but some said their break-even was ½ to ¾ per cent above Libor, the latter, however, including fees.

An important qualification is that the true gross returns and estimated break-even points cited above are in all cases *pre-tax*. Taxes paid by banks vary according to location, but an example of the impact was given by a leading French bank. It estimated its true gross return on a 1 per cent margin above Libor at *1 ½ per cent*, but at only *0.65 per cent net of costs* and *0.40 per cent net of costs and tax*.

Another qualification, applying to banks everywhere, is that *rising costs* give banks no assurance about their returns on medium-term international loans, however those returns are measured, nor on those loans attempting some allowance for rising costs by means of margins rising over the life of the loans.

However, the most important qualification, which compromises, without wholly invalidating everything reported above, is that many non-American banks say that they cannot monitor the marginal cost of their dollar funds as efficiently as US banks participating in Eurocredits. Moreover, many banks say that they cannot arrive at any reliable costing of their medium-term international lending business taken in isolation and at least one bank said it had never ever attempted the exercise. The reason is that the allocation of overheads and other costs to any single segment of a mixed enterprise is nearly always arbitrary, at least in part, and banking is no exception. It follows that the estimates quoted above of true gross returns on Eurocredit lending, true net and true post-tax returns as well as break-even points are, in all cases, best described as no more than guesstimates.

A third supplementary question put at this stage in interviews asked what *provision* banks made against their medium-term international exposure. Most answered that they provide against such international risk on the same basis as against all classes of risk and that they provide against international risk within their general provisions, without segregating provision against Eurocredit assets.

A major European commercial bank said it maintained an historic average of 0.3 per cent of all external assets in the form of contingency reserves, including claims on sovereign borrowers. An international consortium bank said it maintains such reserves at an average of at least 0.75 per cent.

Provision is, however, graded according to risk on all classes of assets. For instance, a large European international bank makes provisions ranging from zero against "risk free" assets like gold and the securities of lending governments, to 2 per cent against claims on some developing countries. Another large bank similarly makes no provision against "risk free" assets but does not usually include in its general provisions more than 1 per cent against any single asset, of whatever kind. A third bank holds provisions ranging from zero upwards against 10 categories of risk, making

specific provisions in the currencies at stake in the case of its riskier assets. Only one European bank reported that it made a separate and differentiated provision against each individual international medium-term loan in which it takes part, although that provision is nevertheless added into its general reserves.

In all cases the common banking principle applies: that provisions which prove to be unneeded for some contingencies become available for others.

11. On the side of the LDC borrowers, do you think that there is the potential for a large increase in bond issues by developing countries? If so, which of the bond markets offers the greater potential for further expansion?

Respondents' Answers
(per cent)

large increase	*limited*	*little or none*
12	24	64

A majority of respondents believe that the international bond markets offer a source of financing only for a limited number of LDCs, predominantly OPEC borrowers and NICs (newly industrialized countries); that the markets provide such financing only in conditions of relatively stable interest rates and yields; that most LDC borrowers would need international guarantees of some kind; and that what potential there is lies mainly in the less regulated Eurobond markets.

The record tends to support such views. (6)

LDC borrowers first entered the international bond markets (Eurobonds plus foreign bonds) on any scale that mattered in 1976. The volume of their borrowing then rose appreciably in absolute terms, as a proportion of total international bond issues and as a proportion of borrowing by LDCs on the international bond and credit markets up to 1977/78, when issuing conditions were favorable on world bond markets.

By 1977, international bond issues accounted for 15 per cent of international market financing by LDCs (bonds plus credits) and more than 12 per cent of all international bond issues by 1978.

The pronounced decline in new LDC issues since 1979 does show, however, that the international bond markets appear to offer scope for LDC borrowing, as yet, only when market conditions are generally favorable.

While about 15 LDCs have so far tapped the international bond markets, they have indeed been limited to NICs and OPEC borrowers; non-

OPEC borrowers have predominanted only because they include Mexico, a large oil producer. Other prominent LDC borrowers have included Algeria, the United Arab Emirates and Venezuela, among the OPEC countries, plus Brazil, the Philippines, Singapore and Thailand.

Such borrowers have not needed international guarantees, but they do pay a premium which, on the external Deutschemark bond market, recently ranged from about 200 to 250 basis points above yields for comparable maturities of prime European borrowers.*

However, such premiums appear worth paying to the borrowers not so much, perhaps, for the relatively limited funds at present available to them on the bond markets directly, but because access to international bond markets is widely regarded as reinforcing the credit standing of borrowers and is thus thought to contribute to their ability to secure more favorable terms on the international bank loan market.

Among the minority of respondents to this question Japanese bankers and especially investment bankers were more interested in the potential for an increase in bond market financing than their counterparts in Europe and the United States, in the context of the relative increase in the volume of yen-denominated bond issues by foreign borrowers generally. They acknowledged that the scope for a large increase in issues by developing countries in the short term was limited (the authorities require borrowers to have made two issues on other markets before), but some LDCs had made issues last year, and from the point of view of the "recycling" of OPEC funds, what mattered was rather the availability of a long-term market for borrowers and investors in general. A very large expansion in Samurai bonds could be expected if the Ministry of Finance were to relax its guidelines because of the attraction of Japan's relatively low interest rates. Opinions differed about whether the present restrictions were required from the point of view of maintaining an orderly market.

12. Do you think that banks' underlying bad debt experience and loan write-offs will be better or worse on international loans than on domestic loans (on average over the next four to five years)?

*On the external DM bond market at end-June, 1981, Pemex 7 per cent 1986 was yielding 12.15 per cent against a yield of 9.65 per cent on EIB 7¼ per cent 1986 (a difference of 250 basis points); Commission Federal Electricidad (Mexico) 6¼ per cent 1988 was yielding 11 per cent, against a yield of 8.90 per cent on Eurofima 5½ per cent 1988 (a difference of 210 basis points).

Respondents' Answers
(per cent)

better	*worse*	*n.a.*
71	7	22

Although the great majority of respondents think that international loan losses will continue to be less than domestic losses, several believe there might nevertheless be some increase in international losses in relation to losses on domestic lending, and this is especially true of Japanese bankers.

The main reason given for the majority view is that most international lending is to sovereign borrowers, their agencies and multinational corporations, or else is in the form of guaranteed trade credits. In the case of rescheduling by sovereign borrowers and their agencies, losses are mitigated by the penalty interest rates that most loan agreements incorporate for the contingency of rescheduling.

By contrast, recession and tight credit restraints in some industrialized countries could lead to more bankruptices and thus a relative increase in the ratio of domestic to international loan losses.

The minority of banks which think international loan losses may be greater than domestic losses over the next four to five years gave the main reasons as the possibility of further constraints on LDC access to Western markets for imports in the event of a protracted Western recession; and the possiblity of ever greater lending competition among banks leading to a greater proportion of relatively high-risk lending to LDCs. A Japanese bank made the point that although sovereign defaults or reschedulings might be fewer in number than domestic loan defaults, the amounts at stake to individual sovereign borrowers tended to be larger than to most domestic borrowers.

13. Turning to your bank's activities, do you anticipate a large increase in your international business? Specifically, do you anticipate that the ratio of the bank's international assets in total assets (on a world-wide consolidated basis) will increase or decrease in the course of the next two to three years (from end-1979)?

a. Increase of more than 20 per cent
b. Increase of 10-20 per cent
c. Increase of 0-10 per cent
d. Decrease of more than 20 per cent
e. Decrease of 10-20 per cent
f. Decrease of 0-10 per cent

14. What was your ratio of international to total assets?

a. At end-1979?
b. At end-1978?
c. At end-1974?

The answers to Questions 13 and 14 are logically combined, but exclude a number of banks, like British overseas banks, to whom the questions are not applicable because their business is, by definition, wholly or almost entirely international.

Of the banks in the sample, about 25 per cent expect the ratio of their international to total assets to increase by more than 20 per cent in the three years to end-1982; about 35 per cent expect an increase of up to 20 per cent; and nearly all the others expect increases of up to 10 per cent.

Not surprisingly, banks whose international assets grew relatively fastest in the years to 1978 tend to expect somewhat slower growth in the coming years than those banks which lagged at an earlier stage. This is especially true of US banks, some of whose ratios are already above 50 per cent.

On the basis of the projections tabulated below, international assets will account for more than half of total assets by end-1982 also at three of the major non-American banks included and for more than a third of total assets at eight banks in the sample.

In all cases, respondents have answered the questions in terms of their total international lending operations and not medium-term lending alone.

Some banks in the sample stress that their aim is to increase their international lending in the coming years in the form of trade credits and lending to multinational companies, rather than to sovereign borrowers and their agencies.

Among US banks interviewed, two actually expected a decrease in the ratio of international business. However, the prevailing assumption among US banks is that the foreign market will continue to grow, but not as rapidly as in the 1970s, and the domestic market will expand more rapidly as new opportunities are opened by new technology and anticipated legislation. Banks have achieved their present proportions of domestic vs. international business not so much through grand strategy and setting of percentage targets, but primarily through seizing attractive opportunities for expansion; they are comfortable with those proportions now, and feel no need to set new targets. From their replies, one receives the broad impression that the era of rapid international expansion for large US banks has passed.

By contrast, bankers in Japan, whose proportion of international business is still relatively small, expect a large increase in their international business, providing it is permitted by official guidance. However, the

authorities continue to regard bank lending and bond issues as "financing transactions" rather than "autonomous" from a balance-of-payments point of view. Such transactions would therefore continue to be subject to the authority of the Ministry of Finance and Bank of Japan, depending on the state of the balance of payments. So long as the current account is subject to wide swings, bankers expect the authorities' policy also to swing sharply from restraint to encouragement, even though most other capital transactions have been liberalized. This makes it almost impossible to develop long-term "strategic plans." The actual increase expected by most Japanese banks is between 10 and 20 per cent.

15. Do you anticipate that the ratio of international earnings to total net earnings will change appreciably over the next two to three years?

a. Appreciable increase
b. Appreciable decrease

Respondents' Answers
(per cent)

large increase	*moderate increase*	*little or none*	*other**
35	25	33	7

The answers to this question showed a clear distinction between banks according to their location. American banks, which are already heavily engaged internationally, expected little or no change in the ratio of their international earnings in the next two to three years. European and associated banks are approximately equally divided between those expecting large, moderate or hardly any increase in their ratios of international earnings. On the other hand, Japanese banks answering this question were almost unanimous in anticipating appreciable increases in their international earnings ratios. Liberalization of the foreign exchange law and confidence in the long-term strength of the yen were cited as factors by one Japanese bank. Another said it expected an increase in commissions from further increases of investments in Japanese securities by non-residents, increases in Samurai bond issues and increases in stock and bond issues made by Japanese companies in external markets.

As a generalization, banks expecting relatively large increases in international earnings in the coming two to three years are those whose international earnings have risen relatively slowly so far, while the opposite is true of those banks expecting only moderate increases or none.

*Includes banks to which the questions are not applicable because their business is already fully international; banks that did not answer; and a small minority expecting a decrease.

In some cases, especially among European banks, expectations of a relatively faster growth of international earnings assume slow growth of domestic earnings.

16. In general terms, is there a maximum limit to the ratio of international to total assets which you would not like your bank to exceed, over the longer term? If so, could you indicate what the maximum would be?

Respondents' Answers
(per cent)

limits	*no limits*
57	43

In reality, the distinction between the policies of most international banks is not as sharp as may be suggested above. The main distinction is that no Japanese banks have set limits yet, "because our international assets are still relatively small," to quote one of them.

Other banks claiming to have no limits include one that says it is willing to increase its international assets to any extent that the business seems sound and some which say they have no static limits, but review their limits regularly.

In practice, the banks that claim to have limits seem to do much the same. The limits given vary between 25 and 66 per cent of total assets, but they all have in common that those limits are higher, by varying degrees, than the ratios of international assets to total assets at present. In some cases the limits presently set are very close to the ratio of international assets already achieved, such as 2 percentage points at one bank. In others, the limits suggest ambitious expansion — in an extreme case a bank has set itself a limit of no less than three times its present, not inconsiderable, international asset ratio!

As a generalization, however, banks that do not at present have limits are usually those with relatively small international asset ratios. An exception is a bank having no limit on the ratio of total international assets, but which limits its international medium-term commitments to 15 per cent of total assets.

17. The regulatory authorities in the United States have developed a system for drawing their banks' attention to credits which, in their opinion may carry undue risks and for generally supervising US banks' interna-

Ratios of International to Total Assets at 21 Leading European and Associated Banks

End of:																					
1974	12	34	10	33	3	60	36	30	10	15	21	4	50	8	10	8	31	Ø	50	16	7
1979	25	38	10	33	10*	60	39*	50*	21*	15	28*	10	53	20	23	23	37*	20	41*	23*	14
Projected Change	b	c	b	c	a	c	b	b	a	0	c	c	c	a	a	0	c	a	c	a	c
Results	29	40	12	35	12	63	45	58	25	Ø	30	11	56	25	28	23	40	25	43	28	15

Projected change reflects answers to Question 13 in which respondents estimate the change in the ratios of their international worldwide consolidated assets in relation to total worldwide consolidated assets from end-1979 to the end of 1981 or 1982 on the scales:

a) more than 20 per cent increase
b) 10/20 per cent increase
c) 0/10 per cent increase
d) more than 20 per cent decrease
e) 10/20 per cent decrease
f) 0/10 per cent decrease.

Results are an approximate indication of what the proportion of international to total assets would be at end of 1981 or 1982 on the basis of the banks' projections.

Ø = not available.

*Indicates banks whose foreign asset growth was arrested when expressed in the appreciating domestic currency of those banks (such as sterling based banks in 1978/79).

0 = zero change expected.

tional lending. Do you approve of their approach to bank supervision or not?

Respondents' Answers
(per cent)

approve	*disapprove*	*other*
29	44	27

A fairer breakdown than suggested above would be that nearly 80 per cent of the non-American banks in this sample disapprove of the American supervisory approach. The category "other" includes a number of non-American banks having branches or subsidiaries in the United States. Some of these declined to answer the question and others did so with an exquisite politeness which seemed to underscore, rather than disguise, their inherent disapproval (examples: "We always like to hear other people's opinions" and, "We have excellent relations with our State supervisors in the United States").

Respondents who flatly disapproved of the American system all made the same point: that it was not for the authorities to try to usurp the commercial judgment of banks, that the views of bank examiners should not be given greater weight than those of banks themselves and that excessive supervision of individual commitments might, indeed, impede the international banking system's efficiency.

On the other hand, a majority of these respondents approved of official supervision of banks' lending taken as a whole including informal discussions, as at the Bank of England, about some large or controversial lending decisions.

Unlike their foreign counterparts, American bankers mostly approved, or said that they approved of the US system of supervision. One respondent loyally "applauded" the efforts of US supervisors. That view was not, however, unanimous. Another American respondent said:

> "The regulatory authorities are not especially expert or perceptive in their country risk analysis. The list of problem countries that examiners use for reference is usually out of date. The examiners themselves can offer virtually no help in evaluating country risk. Our bank, and banks in general, are much more efficient at managing country risk than bank examiners."

18. (For banks with head offices outside the US.) In your opinion, will the system of bank supervision applied to your bank by your national supervisors have the effect of slowing down the rate of expansion of your international lending below the rate you would yourself consider prudent?

Respondents' Answers
(per cent)

yes	*no*	*n.a.*
25	63	12

Most banks which answered "yes" are Japanese. "The Ministry of Finance is very effective in slowing down our international expansion," said one.

The minority of other respondents which answered this question in the affirmative did so in the sense of expressing reservations about the influence of supervision on their international operations, rather than describing it as a severe constraint. For instance, a Dutch bank said that the prudential supervision exercised by its central bank on a worldwide, consolidated basis set standards no higher than the bank would set for itself, but it claimed that the standards set were higher than those in some other countries so that its international expansion was therefore more cautious than that of foreign competitors.

A British bank said that the new supervisory code being discussed with the Bank of England "may exercise some constraining influence over our rate of business expansion" but added, "we do not, however, see this as a serious problem."

A Swiss bank said that capital ratios and liquidity regulations "produce some restraint." And a German bank said that the proposed reform of German banking law which would apply capital and liquidity ratios on a worldwide, consolidated basis "may act as a brake." Bankers reported that in some other countries, such as Italy and Japan, the authorities are influenced by balance of payments rather than prudential considerations in their attitude towards banks' international business.

19. On the liabilities side, do you feel that greater uncertainty with regard to the stability of the deposit base (in terms of possible shifts in the geographical distribution or currency distribution of new deposits, for example) will act as a deterrent to new international lending?

Respondents' Answers
(per cent)

yes	*no*	*n.a.*
25	65	10

The large majority of respondents saying that they do not think excess concentration of their deposit base will inhibit new international lending

nevertheless include some banks which are vaguely troubled by the phenomenon without as yet having worked out a clear policy response. "We are worried, but don't do anything about it" was a comment summing up the feeling of such banks. In a similar vein, another bank said it had "very reluctantly" accepted large OPEC deposits after the American freezing of Iranian assets in late 1979 because it would have been "embarrassing" to refuse the very important clients seeking to make those deposits. Most Japanese respondents answered "yes" or did not answer at all.

However, that still leaves a large majority of banks which say they are not unduly concerned about *geographical* deposit concentration for three main reasons. Firstly, the deposit base of major international banks remains highly diversified in spite of a proportional increase in deposits from some areas. Secondly, such banks reason that withdrawals by a single large depositor or even group of depositors must logically find their way back into the international interbank market for foreign currency (i.e. Eurocurrency) deposits, where the deprived banks, in the case of the largest, can bid back any funds needed on the finest terms. Thirdly, continuity of good relations is important for customers and not banks alone, so that an abrupt, generalized movement of funds seems likely only in exceptional circumstances (e.g. a temporary switching from smaller to bigger banks after Herstatt in 1974, a temporary channelling of new Iranian and some other dollar deposits to non-US banks after the Iranian siege of 1979).

Of somewhat greater concern than *geographical* deposit concentration for some banks answering this question has been a trend towards *shorter-term deposits* not confined to OPEC depositors alone, as a result of greater interest rate volatility and uncertainty. This has been particularly evident since October, 1979, when the Federal Reserve shifted to control of the US monetary base, thus allowing the price of money to be affected more quickly and sharply than before by changes in supply and demand. As already mentioned, this does not in itself influence the volume of deposits available to large international banks which dominate the international bank loan market. But to the extent that they cannot or do not match assets and liabilities in the case of three- or six-months medium-term rollover credits, their marginal cost of money may be increased or decreased and their returns may be affected correspondingly.

In addition, interest rate instability in the past two years has contributed to *currency switching* on the part of depositors; higher returns on some currencies and lower returns on others have not been offset by exchange rate changes in the latest period to the same extent as during most of the 1970s.

It is right to add, however, that most banks in the sample believe that these difficulties remain manageable, even though they have increased. By

the same token, bank examiners in at least some countries report that they are concentrating more closely than before on the liabilities on bank balance sheets, especially in the case of relatively smaller banks that are nevertheless big enough to participate in international lending. (Prudential supervision of domestic operations has long concentrated on the deposit concentration of smaller banks).

Of the minority of banks that answered this question by saying they are actively concerned by excess geographical concentration of deposits, one said: "We worry about geographical concentration of liabilities, although not as much as about geographical concentration of assets." Another said, "We do not like to take funds from sources we would not like to lend to."

Only one bank reported putting absolute limits on its acceptance of liabilities from any single source, in most cases at 5 per cent of its total liabilities but in "exceptional" cases at 10 per cent.

Banks that limit their acceptance of liabilities in the case of individual international depositors or some classes of such depositors, whether rigidly as above or less so in most other cases, do so by two main ways. Some refuse by quoting returns which they believe will be unacceptable to prospective depositors. Others feel that it is less insulting and in the interest of continuing relationships to decline such deposits frankly by way of open but friendly discussion with the clients.

20. Would your bank consider offering facilities whereby deposit-liabilities would be denominated in a "basket of currencies," such as the SDR, as a means of offering a more stable asset to customers?

Respondents' Answers
(per cent)

yes	*no*	*n.a.*
75	18	7

Of the majority answering this question in the affirmative, more than a quarter already accept SDR deposits, some already issue certificates of deposit (CDs) denominated in SDR and a few already make some SDR loans.

However, nearly all respondents believe that the provision of SDR facilities by commercial and investment banks may have limited potential and that such business will almost certainly expand only gradually. One bank, which said it had been accepting SDR deposits for many years, even

before the composition of the SDR was reduced from 16 currencies to five* at the beginning of 1981, reported that it had experienced "little appreciable growth" in client demand for such assets.

Several reasons were given for the almost unanimous view of slow and limited potential for SDR business:

1. The gradual start experienced by nearly all new markets until enough pioneers have entered it to encourage participation by a more cautious majority;
2. That banks and large non-bank participants already have sufficient alternatives for hedging currency exposure; multinational corporations and institutional investors like international pension funds and insurance companies traditionally match or should, in theory, try to match currency assets and liabilities;
3. Because the composition of the SDR has already been changed more than once, some banks believe depositors, or investors in SDR CDs, may have to be given the option of immediate redemption in the event of any further changes in the SDR's composition;
4. "The capacity of the forward foreign exchange market to cover positions arising from a large increase in SDR deposits has yet to be tested and could prove a serious constraint" — this from a bank that already accepts SDR deposits;
5. "We would be prepared to offer SDR denominated deposits only if we ourselves could invest on the same basis; otherwise we would be accepting considerable exchange risks on our assets".

In connection with this last point, some banks believe that issues of SDR assets to non-official investors by the IMF, envisaged as an experimental possibility, might help the evolution of this market.

21. What do you believe is the appropriate long-term relationship between the IMF and commercial banks with respect to information sharing, co-financing?

Nearly all banks agree that even more *sharing of information* with the Fund would be helpful. At the extreme, one bank accused the Fund of being "unnecessarily secretive."

Arguing the minority view, one bank said that greater information sharing might inhibit Fund members from supplying information. Against this, the case for the majority opinion was put by a bank which said that the Fund should do more to encourage member countries that sharing information with commercial banks is in the interests of the member countries themselves, and not in the interest of lenders alone.

A point widely ignored in answers is that reports made by Fund staff on member countries have circulated very widely among commercial and

* United States dollar, German deutschemark, Japanese yen, French franc and English pound, in that order.

investment banks for many years; this is usually, but not in all cases, because member countries have chosen to make them available to banks.

The question of *co-financing* was assumed by respondents to suggest a somewhat more formal link than exists at present, when compliance with IMF conditions may be one factor encouraging the banking system to provide finance to a Fund member country. The kind of link suggested by the question was taken to be similar to the co-financings in which the presence of the World Bank encourages complementary participation of commercial lenders, but on their own judgment and terms; or the parallel investments in private enterprise made by the World Bank's affiliate, the International Finance Corporation, which is specifically designed to encourage the participation of commercial investors.

Nearly all respondents appeared to favor some degree of more formalized co-financing by the Fund and the international banking sector. However, all of them thought the potential for it is limited (as has proved the case with World Bank co-financings). Moreover, there was general agreement that any co-financing with the IMF should be on the same lines as with the World Bank, in which banks would remain responsible for exercising their own judgment and applying their own terms. "While there will be occasions when the interests of the Fund and the banks coincide, it is inevitable that the criteria of the two will often be different" was the comment of one bank.

Among the minority of banks opposing any more formalized link on principle was one which said the function of the IMF was to tide countries over balance-of-payments difficulties on the short- to medium-term by encouraging policy adjustments on the part of member countries. On the other hand, commercial lending, especially to higher income developing countries, has tended to concentrate on the financing of development designed to help borrowing countries increase their foreign exchange earning capacity over the longer term.

A special comment from an American bank was:

> "The appropriate channels for making IMF conclusions in written form available to commercial banks is via the central banks of the member countries and their executive directors at the Fund. This channel appears to be available to commercial banks in other major industrialized countries, but in the case of the US banks, neither the Federal Reserve nor the Treasury has been very cooperative in information-sharing which it might usefully involve written material."

Another revealing comment was that information from the IMF "is often slanted as though getting more information from the Fund would make you more receptive to lending. We would like to make the point that sometimes more information would make us less likely to lend."

22. Would you favor some easing in the conditions attached to IMF credits to encourage borrowers to go to the Fund at an earlier stage than has usually been the case in the past? Or would you, on the contrary, be very concerned at such a policy trend?

Respondents' Answers
(per cent)

in favor	*against*	*n.a.*
25	70	5

The case for the majority arguing against an easing of IMF conditions was put by a bank that said:

> "The Fund's conditions and policies have proved to be prudent and an easing of conditions attached to IMF credits could be the first step in an unwelcome direction. There are already several institutions dealing with hardship cases, like the International Development Association."

A second argument against an easing of IMF conditions is that such conditions, even in their present form, are no more than one factor influencing commercial bank lending to sovereign borrowers (see answers to Question 24).

Another argument, made by some banks in interviews, is that an easing of conditions would not necessarily and in itself encourage more members to approach the Fund at an earlier stage, because the timing of approaches to the Fund is often dictated by the political concerns of member countries rather than by the terms and conditions available from the Fund. There is a tendency for countries to resist going into the Fund in an attempt to demonstrate their viability to international lenders and their own electorates; by the same token a crisis approach to the Fund allows governments to shift responsibility for uncomfortable adjustment onto a distant agency in Washington. On such a view of relations between the Fund and some member countries, an easing of conditions might do little if anything to encourage earlier approaches, according to some bankers.

The minority view was put, hesitantly, by a bank which said it would favor some easing of Fund conditions, providing such relaxation is "not too great."

A more practical suggestion came from a bank which said borrowers might be encouraged to go to the Fund at an earlier stage "not by easing conditions, but by making it more attractive in terms of financial resources, like the recent changes in the guidelines for the use of the Fund's resources."

In this connection, another bank said, "The IMF has already done a

great deal to increase the range and flexibility of its programs and this is insufficiently appreciated in the world at large."

An argument of several respondents was that the Fund might attain still greater flexibility less by an easing of conditions generally, than by an increasingly differentiated approach to the problems of individual member countries.

Respondents from the United States differed sharply on this question. Some felt the Fund ought to maintain rigorous conditions; a few others felt that world circumstances require an easing. On balance, it is clear that bankers view the ability of the Fund to impose policy conditions on borrowers as a mainstay of the system.

For firmness:

> "We would be concerned at an easing of standards. For a country with balance-of-payments problems, the crucial element is to adopt viable policies. Getting the policies right is the difficult part; financing is the easy part. We still believe that the key role for the IMF is in encouraging better policies, and the amount of lending it does is of secondary importance.
>
> "Where the IMF has taken a very lenient attitude, basically the country has dug itself deeper into the hole. But if there is a tough taskmaster, so that people know that if they get out of line they're going to face some real problems, that they are going to be disciplined, there will be fewer problems.
>
> Basically any actions that loosen conditionality act to our detriment as commercial banks."

There was some concern that the Fund had already in effect — if not intent — eased conditionality.

> "At any rate, last time in some cases it was felt that the oil facility had even slowed down adjustment in the sense that it made money too easily available. There were certain groups of the Fund staff that were opposed to duplicating that this time, because they would like to make sure that whatever lending the Fund did, it would keep the pressure on countries to get things under control and that that would be easier if you did it through the Fund's normal lending rather than through a special facility."

On the other hand, bankers recognized the advantages of persuading countries to go to the Fund at an early stage.

> "We feel that the IMF should play a more active role than they have done in the past, and that to the extent that a country needs assistance it is better to have their participation sooner rather than later. We do feel that the Fund has mellowed, and although there is this fear of conditionality — and to some extent you have to have it, otherwise the program isn't going to work — Fund involvement should be encouraged to be earlier."
>
> "One of the problems we had to work out was that the IMF does tend to be extremely rigid, and all of the things they are rigid on are proper and appropriate, right out of any good banking textbook. But if the rigidity is so rigid that a government is overthrown and you have a Communist or a Fascist government take over because it has been so rigid, then you may have got the textbook right, and the country just disappeared."

23. Do you think that the Fund itself would be able to borrow large amounts on the international financial markets and what, in your view, would be the best approach for the Fund to follow?

Respondents' Answers
(per cent)

yes	*no*	*n.a.*
87	11	2

The simplified breakdown above is yet one more that needs qualification. The minority short-handed as "noes" in this case consists of banks opposed to the concept of enlarged Fund borrowing from member countries and even more so from the markets, rather than banks which doubt the Fund's ability to borrow successfully if it so chooses.

The great majority believing that the Fund could and might, indeed, usefully borrow more from OPEC countries and other richer members, as well as from the markets, suggested a wide spectrum of possible assets that might be issued, from short-term paper to medium-term floating rate notes and at the other end, longer-term fixed interest securities, although several banks argued against the emergence of the IMF as a competitor of the World Bank in international bond markets.

Many banks expressed the view also that IMF assets denominated in SDR might prove widely acceptable and at the same time make an important contribution to the evolution of an international market in SDR assets.

Estimates of the amounts the IMF might raise from the markets, mainly the authorities of some member countries, banks and, marginally, from non-bank international institutions, ranged from "vast" (undefined) to $5 billion a year (unexplained).

A point made by several banks is that the IMF's sovereign immunity would need to be waived for market borrowing and (as in answers to Question 20) that investors might need the option of immediate redemption of outstanding SDR securities in the event of further changes in the composition of the SDR. Moreover, the IMF would need to help provide a sufficient market to give investors assurance of reasonable liquidity.

An argument against IMF market borrowing or borrowing from member countries at market-related terms was that this would push up the Fund's average cost of money and thus its lending rates, even though the Fund could expect to borrow on very fine terms.

The latter prospect, however, caused some bankers to question why OPEC and other member countries should wish to invest in IMF assets at returns below those safely available from the world's leading commercial banks.

The overwhelming view that the IMF could raise large sums if it wished was precisely the reason some bankers gave for opposing such an approach. "Any borrowing by the IMF would have a 'crowding out' effect and adversely affect the fund-raising ability of private lenders" was one comment. Another bank said the "danger" of large IMF market borrowing "could be a squeeze on banks' ability to fund their loan portfolios."

It was on such grounds, possibly more widely held than expressed, that one bank commented: "The very nature of resources [borrowed from the markets] does not seem quite appropriate to the Fund's requirements," a reference to the distinction between the roles of the Fund and the international banking system in the final section of the answers to Question 21.

Other comments included the following:

> "How would they do it? The Fund certainly faces a number of mechanical problems. Can they convince the investors that they are a good credit — other than the fact that this is the IMF, which although not a bank, has some kind of credit that will assure repayment?
>
> "When you get down to it you will find that although the US banks would do a lot of typical analytical work, many European banks would simply take the view that the IMF is virtually the agency of the governments of the world, and as such would take a positive view about its credit.
>
> "Many of them will regard the IMF in that way, that it is really the bank for the world and it would be in the interest of governments to see that it meets its obligations because if it doesn't we're going to have so many other problems to worry about this would be the least of them.
>
> "Now, we're not telling that to the IMF. We're telling the IMF that they should really write their prospectus and be very careful about presenting credit in the conventional way of looking at it."

24. When the Fund reaches an agreement with a member country on the adoption of an adjustment program, as part of a credit facility, would you regard this by itself as a decisive factor in your bank's decision to extend new credit to that country?

The answer to this question was unanimous and simple. It was summed up for all respondents by the bank which said that agreement between the Fund and a member country on the adoption of an adjustment program was regarded as "a positive but not decisive" influence on its own decisions to extend new credits to the country concerned. Among other factors taken into account by banks is the willingness and ability of a country to implement and persist in an adjustment program agreed with the Fund. Equally important is the distinction drawn by most bankers, and already referred to, between the Fund's role of tiding member countries over temporary difficulties, often by the dampening of domestic demand, and the role of market capital in contributing to development and the expansion of a

borrowing country's net foreign exchange earning capacity over the longer term.

25. Other possible measures that have been suggested for easing the strain of recycling on the banks include the following:

The establishment of an international agency to provide insurance facilities for bank loans;
The establishment of an agency to provide official medium-term finance.

Do you favor either of these?

American reaction was sceptical towards the establishment of an international agency to provide insurance facilities for bank loans, or an agency to provide official medium-term finance.

On the insurance facility, one bank thought it might conceivably be useful in supporting a marginal enlargement of a loan in perhaps the $5 million range; but most rejected the idea as being too cumbersome, and raising sticky legal questions.

On the finance facility, the only even mildly positive response was that anything that could help ought to be looked into, so long as it did not "compromise the operation of free-market forces"; but most rejected the idea, saying existing agencies could meet financing needs.

Supplementary Question (for non-US banks)

How do banks assess sovereign and other international risk and how do they arrive at international lending limits?

Answers given in interviews brought out a clear distinction between the *subjective* assessment of sovereign and other cross-border risks and the *objective* limitations which banks place on their subjective analyses in the form of lending limits.

In the past decade, banks have devoted increasing time and care to country risk analysis. Such analysis concentrates not only on economic trends, but usually attempts some allowance for even more elusive factors like social and political stability. Yet, no matter how carefully structured, such analyses remain *subjective* in the last resort. And, because of that, they are only one factor influencing bank lending limits.

Many banks appear to translate their subjective judgments into *objective* lending limits by grading countries into classes or groups. Typical of this approach is the system of one major European bank which classifies foreign borrowers into five groups:

1. Governments and official agencies of the Group of Ten leading industrial countries, to which almost no lending limits are applied;
2. Governments and agencies of older industrialized countries outside the G-10 to which generous limits are allowed;
3. Oil exporting countries;
4. Newly industrialized countries (NICs);
5. High export-growth non-oil LDCs which have yet to be accorded the status of NICs in the international nomenclature.

Several points were made by banks using such systems of grading as the framework within which lending limits are set, both in the case of banks setting such limits in relation to their own capital and reserves, or as a proportion of their external assets or total assets:

- lending limits are not the same to all countries within a group; the limit applied to prime borrowers in one group may be close to that applying to lesser names in the group above;
- lending limits to individual countries, within the group parameters, are not static, but reviewed frequently to take account of borrowers' changing circumstances;

- the very act of providing additional credit may contribute to a perceived change in the borrower's circumstances, for better or worse;
- at some banks, limits are regarded as ceilings not to be exceeded in the absence of some change of circumstances appearing to make a higher limit desirable and prudent, but at other banks lending limits are set cautiously low to act as "trip wires" alerting the bank to a more careful assessment of the borrower's circumstances;
- exposure and lending limits are in all cases measured in terms of *gross* claims.

The inconclusive litigation cut short by the settlement of the dispute between the United States and Iran in January, 1981, simply underscored the great difficulty of banks, in the case of a dispute, trying to offset liabilities to an international borrower against claims on the borrower, even when the borrower's assets are within the jurisdiction of the bank's country of residence.

Statistical appendix and factual notes

(1)

WORLD DEFICITS, RESERVES AND MARKET FINANCING
(billions of dollars estimates)

	Non-OPEC deficits	Increase in world reserves	Total financing need	Market financing		Market financing as % of total need
				Gross	Net	
1977	42	56	98	100	66	67
1978	21	44	65	105	70	108
1979	75	39	114	115	75	66
1980	130	47	177	115	75	42
1981	105	...	...	125	...	...

Sources: IMF, OECD. Current deficits include transfers; world reserves, excluding gold, include OPEC members'; gross market financing includes international bonds and publicized Eurocredits; net financing estimated at about 66 per cent of gross financing. 1981 forecasts by OECD. 1978 data distorted because most OPEC members were also in deficit that year; 1980 figures affected by reserve draw-down by many deficit countries. Average market financing for the years 1977-80 was 70 per cent.

Source: *The Banker*, London, June, 1981.

(2)

MAJOR BANKS' CAPITAL/ASSETS RATIOS

	1970	1980
Average 4 US banks	5.01	3.79
Average 4 UK banks	7.63	5.98
Average 3 German banks	4.26	2.90

The banks are Bank of America, Citicorp, Chase and Morgan; Barclays, National Westminster, Midland and Lloyds; Deutsche Bank, *Commerzbank* and the Dresdner Bank. Source: *The Banker, London.*

(3)

To help put the subjective views of respondent bankers into perspective, the following factual notes are appended to the answers to Question 1:

Real interest rates on new loan commitments to non-oil LDCs fell from a positive 5 per cent to a negative 15 per cent between 1972 and 1974 and remained negative until 1977, from which point they rose gradually to about 2 to 2½ per cent at mid-1980. Real rates are defined as nominal rates less the three-year change in borrowing countries' export prices (New York Federal Reserve Bank Quarterly Bulletin, Spring, 1981).

The same source, using World Bank, IMF and the New York Fed's own estimates, suggested that the ratio of debt service to export earnings had risen only from about 8 to 11 per cent for all non-oil LDCs between 1974 and 1979, but that it had doubled to 24 per cent for "major borrowers," namely Argentina, Brazil, Chile, Colombia, Mexico, Peru, the Philippines, South Korea, Taiwan and Thailand. Among the latter, however, the debt service ratio rose during the five years to 1979 from about 15 to about 38 per cent for "low export growth" countries (Argentina, Brazil, Mexico, Peru and the Philippines), but only from about 8 to 10 per cent for "high export growth" countries (Chile, Colombia, South Korea, Taiwan and Thailand).

The IMF World Economic Outlook of May, 1980, put the ratio of external debt to exports of goods and services of net oil-importing LDCs at 69 per cent in 1980 against 67 per cent in 1973, but the ratio of external debt of those countries to gdp rose from 13.5 to 17.3 per cent during the period.

Mr. Jacques de Larosiere, Managing Director of the IMF, has estimated that loans to non-oil LDCs remained approximately unchanged at about 17 per cent of the gross external assets of the Western banking system between 1970 and 1979.

(4)

GLOBAL CURRENT PAYMENTS
(billions of dollars)

	1975	1976	1977	1978	1979	1980	1981	1982
Current balance								
OECD	0	−18	−24	10	−35	−77	−63	−45
OPEC	27	36	29	4	66	121	109	67
Non-oil developing countries	−30	−17	−12	−23	−39	−53	−61	−62
Other non-OECD countries	−18	−13	−8	−9	−4	2	0	−3
Total*	−20	−12	−16	−18	−13	−7	−15	−43

Source: OECD Economic Outlook, July, 1981.
* reflects errors and asymmetries.

(5)

Although terms for borrowers eased steadily on the international bank loan market from 1976, the volume of new publicized Eurocredits rose from less than $30 billion in that year to $80 billion in 1979, whereafter it stabilized. The easing of terms to borrowers may have helped slow down the willingness of some banks to enter new commitments. However, other factors can be cited too. Many countries took advantage of favorable terms for precautionary borrowing through 1979 and were thus able to ride out 1980 by running down reserves and drawing on undisbursed credits. Another factor that may have helped check the expansion of new publicized Eurocredit borrowing after 1979 was a return of real interest rates to levels not experienced since 1972. Narrowing lending margins for banks and high real interest costs for borrowers may have combined to produce the "unusually large share of short-term international lending" during the second half of 1980, reported by the Bank for International Settlements in July, 1981. Maturities of up to one year accounted for two-thirds of the growth in Western banks' external claims during the second half of 1980 compared with 40 per cent during the preceding 12 months. During the second half of 1980, 62 per cent of new international lending to Latin America was "short-term", meaning up to one year, and the proportion to Asian borrowers other than Japan was 77 per cent. "This development reflects the lesser role played during 1980 by the syndicated loan market as a source of credit to the developing countries" said the BIS.*

**Source:* Maturity distribution of international bank lending, Bank for International Settlements, July, 1981.

(6)

LDC BORROWERS ON INTERNATIONAL BOND MARKETS
(billions of dollars)

	1976	1977	1978	1979	1980	1981*
OPEC	0.1	0.8	1.5	0.4	0.5	0.1
Non-OPEC	1.5	2.8	2.7	2.7	1.9	0.5
Total LDCs	1.6	3.6	4.2	3.1	2.4	0.6
Total Int'l Bonds+	32.5	32.2	34.3	41.0	41.9	9.6
	per cent of new issues					
OPEC	0.4	2.5	4.5	1.0	1.3	1.2
Non-OPEC	4.5	8.5	7.8	6.5	4.6	5.4
Total LDCs	4.9	11.0	12.3	7.5	5.9	6.6

Source: Morgan Guaranty, World Financial Markets; figures rounded.
*First quarter. +Foreign plus Eurobonds.

PUBLICIZED EUROCREDITS TO LDCs
(billions of dollars)

	1976	1977	1978	1979	1980	1981*
OPEC	4.0	7.4	10.6	12.7	11.5	1.9
Non-OPEC	11.0	13.4	26.7	35.2	23.5	6.7
Total LDCs	15.0	20.8	37.3	47.9	35.0	8.6
International bonds as per cent of bonds plus credits to LDCs						
OPEC	2	10	12	3	4	5
Non-OPEC	12	17	9	7	7	7
Total LDCs	10	15	10	9	6	7

Source: Morgan Guaranty, World Financial Markets; figures rounded.
*First quarter. +Foreign plus Eurobonds.

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Two World Trade Center
Suite 9630
New York, New York 10048
Tel: (212) 775-9160

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Robert V. Roosa is a partner in the private banking firm of Brown Brothers Harriman. Before joining his present firm in 1965, he was four years Undersecretary of the Treasury for Monetary Affairs and preceding that was with the Federal Reserve Bank of New York for 15 years. He received his doctorate in economics from the University of Michigan.